

Message Text

CONFIDENTIAL

PAGE 01 BONN 03340 01 OF 03 271750Z

46

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C O N F I D E N T I A L SECTION 01 OF 03 BONN 03340

E.O. 11652: GDS

TAGS: EEWT, TRD, GE, GW

SUBJ: FRG/GDR ECONOMIC RELATIONS

REF: BERLIN 5169

1. SUMMARY: EMBOFF DISCUSSED STATUS OF FRG/GDR ECONOMIC RELATIONS WITH ECONMIN DESK OFFICER FOR THE GDR. DISCUSSION FOCUSED ON FINANCIAL, TRADE AND INDUSTRIAL RELATIONS BETWEEN THE TWO COUNTRIES, AND DESK OFFICER BRIEFLY DISCUSSED FRIDERICH'S UPCOMING VISIT TO LEIPZIG. END SUMMARY.

2. TRADE RELATIONS. DESK OFFICER GAVE US PRELIMINARY FIGURES FOR 1975 INTER-GERMAN TRADE. WEST GERMAN EXPORTS INCREASED TO ROUGHLY DM 4 BILLION (3.67 BILLION
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PAGE 02 BONN 03340 01 OF 03 271750Z

IN 1974), WHILE IMPORTS INCREASED TO DM 3.4 BILLION

(3.25 BILLION IN 1974). TOTAL TRADE THUS REACHED AN ALL TIME HIGH, BUT WEST GERMAN SATISFACTION WITH THIS DEVELOPMENT WAS CONSIDERABLY DAMPENED BY THIRD AND FOURTH QUARTER DATA WHICH SHOWED RELATIVELY LITTLE INCREASE OVER THE PREVIOUS YEAR. OUR SOURCE IS CERTAIN THAT THE STAGNATION IN EXPORTS RESULTED FROM CONSCIOUS GDR EFFORT TO HOLD DOWN FINANCIAL DEBT TO THE FRG. HE ALSO INDICATED THAT TRADE PROSPECTS FOR 1976, WHILE GENERALLY GOOD, WILL BE HAMPERED BY EAST GERMAN INSISTANCE UPON BARTER TYPE ARRANGEMENTS IN FUTURE TRADE AND INDUSTRIAL COOPERATION. (SEE PARA 8).

3. STRUCTURE AND COMPOSITION OF TRADE: WEST GERMANY CONTINUES TO EXPORT A HIGHER PERCENTAGE OF FINISHED PRODUCTS TO THE GDR THAN IT RECEIVES IN RETURN (67 PERCENT VERSUS 53 PERCENT), CAUSING SOME CONCERN ABOUT THE GDR'S ABILITY TO REDUCE ITS TRADE DEFICIT WITH THE FRG. THE EAST GERMANS ARE ATTEMPTING TO OFFSET HIGHER-TECHNOLOGY WEST GERMAN EXPORTS (WHICH CARRY LARGE PRICE TAGS) IN THE CHEMICAL, MACHINERY, AND ELECTRICAL FIELDS, WITH RELATIVELY CHEAP TEXTILES, CLOTHING, AND AGRICULTURAL PRODUCTS, ALL OF WHICH FACE EXTREME PRICE COMPETITION FROM THIRD COUNTRIES. THE FRG IS INTERESTED IN RECEIVING MORE GDR MACHINERY AND MACHINE TOOLS, BUT THE GDR DOES NOT APPARENTLY HAVE THE CAPACITY AT THIS TIME TO MAKE SUCH EXPORTS. DESK OFFICER PROVIDED US WITH INFORMATION ON THE LEVEL OF AGRICULTURAL IMPORTS FROM EAST GERMANY, WHICH HAS ALREADY BEEN DETERMINED BY AGRICULTURE MINISTRY FOR 1976. THESE IMPORTS WILL TOTAL DM 431 MILLION, CONSISTING OF WHEAT (DM 175 MILLION), CATTEL AND MEAT (DM 105 MILLION), SUGAR (DM 25 MILLION), AND OTHER PRODUCTS (DM 126 MILLION).

4. THE ONLY BILATERAL TRADE PROBLEM AT THE MOMENT CONCERNS PRICE REGULATIONS ON SELECTED GDR EXPORTS TO WEST GERMANY. FOLLOWING THE WIDE PUBLICITY GIVEN TO GDR DUMPING OF TEXTILES ON THE GERMAN MARKET IN 1975, SELECTED GDR IMPORTS BECAME SUBJECT TO QUOTAS AND

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PAGE 03 BONN 03340 01 OF 03 271750Z

MINIMUM PRICING. THE ECONOMICS MINISTRY HAS BEEN CHARGED WITH ESTABLISHING THESE MINIMUM PRICES AND HAS COME UNDER RECENT CRITICISM FROM BOTH EAST GERMANY AND GERMAN TRADE ASSOCIATIONS FOR SETTING THE PRICES EITHER TOO HIGH OR TOO LOW. ECONMIN OFFICIAL CONFESSED THAT THERE WAS NO POSSIBLE WAY TO EFFICIENTLY AND FAIRLY REGULATE THE PRICES AND THAT THE ECONOMICS MINISTRY WAS LESS THAN

ENTHUSIASTIC OVER ITS NEW RESPONSIBILITY.

5. FINANCIAL QUESTIONS. OUR SOURCE DISCUSSED GDR FINANCIAL DIFFICULTIES IN SOME DETAIL. HE INDICATED THAT BOTH THE DEUTCHE BANK AND COMMERZ BANK HAVE DONE RECENT STUDIES ON GDR INDEBTEDNESS. THESE STUDIES INDICATE A TOTAL GDR DEBT OF \$3 BILLION, WHICH CORRESPONDS TO RECENT ESTIMATES OF THE CHASE MANHATTAN BANK. OTHER REPORTS POINT TO GDR DEBT OF BETWEEN

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PAGE 01 BONN 03340 02 OF 03 271747Z

46

ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

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C O N F I D E N T I A L SECTION 02 OF 03 BONN 03340

DM 11 AND 12 BILLION (\$4 - 4.5 BILLION). GDR DEBT TO WEST GERMANY IS DM 2.4 BILLION. IN 1975 EAST GERMANY BEGAN FOR THE FIRST TIME TO BORROW HEAVILY IN THE

EURODOLLAR MARKET. DESK OFFICER CONFIRMED PRESS REPORTS WHICH POINT TO TOTAL GDR EURODOLLAR BORROWINGS OF \$250 MILLION IN 1975. SINCE THAT FIGURE WAS CALCULATED THE GDR HAS OBTAINED A \$25 MILLION LOAN FROM THE SWISS KREDIT TERMS OF THE LOAN ARE FIVE YEARS AT 1.375 PERCENT ABOVE LIBOR. THE WEST GERMAN "SWING" CREDIT FOR 1976 WILL BE DM 850 MILLION. LAST YEAR IT WAS DM 790 MILLION WITH THE INCREASE DUE TO THE INCREASE OF GDR IMPORTS FROM THE FRG BETWEEN 1974 AND 1975. THE FRG BASES THE CREDIT LEVEL ON A FIXED PERCENTAGE (25 PERCENT) OF GDR CONFIDENTIAL

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PAGE 02 BONN 03340 02 OF 03 271747Z

IMPORTS FROM THE FRG IN THE PREVIOUS YEAR. IN THE PAST THERE WAS NO CEILING ON THIS CREDIT; STARTING THIS YEAR, HOWEVER, THE GDR MAY NOT EXCEED DM 850 MILLION IN ANY GIVEN YEAR.

6. COMMENT: OUR SOURCE HAD NO CONCRETE EVIDENCE TO DATE THAT GDR INDEBTEDNESS HAS REACHED A POINT WHICH WOULD JEOPARDIZE ITS ABILITY TO OBTAIN FUTURE CREDITS IN THE WEST. HE DID NOTE HOWEVER, THAT THE LARGE NUMBER OF STUDIES ON GDR INDEBTEDNESS WHICH HAVE BEEN CONDUCTED RECENTLY BY WEST GERMAN BANKS PROBABLY INDICATES THAT THE BANKS ARE NOW SOMEWHAT UNEASY ABOUT THE GDR'S CREDIT STANDING. THE APPARENT GDR DECISION TO REDUCE ITS EXPORTS FROM WEST GERMANY IN THE SECOND HALF OF 1975 AS A MEANS OF HOLDING DOWN ITS DEBT TO THE FRG MAY PROVIDE EVIDENCE THAT THE GDR ITSELF IS SOMEWHAT CONCERNED ABOUT THE MAGNITUDE OF ITS DEBT.

7. KRUPP, WHICH SIGNED A FRAMEWORK AGREEMENT WITH THE GDR LAST YEAR, REACHED AGREEMENT LAST MONTH ON THE CONSTRUCTION OF A METAL CASTING FACILITY IN EAST GERMANY. ECONMIN DESK OFFICER, WHO HAS BEEN BRIEFED BY KRUPP OFFICIALS, INDICATED THAT THE VALUE OF THE PROJECT IS SEVERAL HUNDRED MILLION DMS. NEGOTIATIONS BETWEEN KRUPP AND THE GDR FOR THE CONSTRUCTION OF A STEEL PLANT AND ROLLING MILLS HAVE NOT, ACCORDING TO HIS INFORMATION, ADVANCED BEYOND THE PRELIMINARY STAGE HOWEVER. THE GERMAN FIRM UHDE HAS ALSO RECENTLY SIGNED A CONTRACT FOR THE CONSTRUCTION OF A PCV PLANT IN EAST GERMANY. VALUE OF THIS PROJECT IS ESTIMATED AT DM 500 MILLION. IN SPITE OF THESE LARGE PROJECTS, THE NUMBER OF COOPERATIVE VENTURES BETWEEN THE GDR AND FRG FIRMS REMAINS SMALL COMPARED TO FRG ACTIVITY IN OTHER EAST BLOC STATES.

8. FURTHER ATTEMPTS AT COOPERATIVE INDUSTRIAL VENTURES ARE BEING DAMPENED, ACCORDING TO OUR SOURCE, BY GDR

INSISTANCE ON RETURN PAYMENT IN GOODS. WHILE THE GDR HAS MADE SIMILAR DEMANDS WITH OTHER WESTERN NATIONS, IT APPEARS THAT THEY HAVE BEEN PARTICULARLY INSISTENT WITH THE FRG. SINCE MOST EAST GERMAN BUSINESS WITH THE

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PAGE 03 BONN 03340 02 OF 03 271747Z

FRG IS CONDUCTED BY LARGE WEST GERMAN FIRMS WHICH HAVE THE CAPABILITY TO MARKET BOTH RELATED AND UNRELATED GDR PRODUCTS, THE GDR APPARENTLY BELIEVES IT CAN MORE EASILY GET ITS WAY WITH THE WEST GERMANS. IN CONNECTION WITH THE RENOVATION OF THE BERLIN-HELMSTEDT AUTOBAHN IN EAST GERMANY, DESK OFFICER TOLD US THAT THE EAST GERMANS HAVE EVEN INSISTED THAT FRG DELIVERIES OF ROAD BUILDING EQUIPMENT BE TIED TO RETURN DELIVERIES

CONFIDENTIAL

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PAGE 01 BONN 03340 03 OF 03 271753Z

46

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C O N F I D E N T I A L SECTION 03 OF 03 BONN 03340

OF AS YET UNSPECIFIED GDR PRODUCTS. WHILE SOME OF THE LARGER GERMAN FIRMS ACCEPT SUCH BARTER ARRANGEMENTS, NEARLY ALL ARE LESS THAN ENTHUSIASTIC AND FOR SOME IT IS IMPOSSIBLE TO DO SO.

9. COAL DELIVERIES. ECONMIN OFFICIAL REPORTED THAT NEGOTIATIONS WITH THE GDR ON EXPLOITATION OF BORDER COAL FIELDS IN THE HELMSTEDT AREA HAVE NOT MADE AS MUCH PROGRESS AS WAS EARLIER EXPECTED. IT IS NOW PROBABLE THAT MINING WILL NOT BEGIN BEFORE NEXT YEAR.

10. FRIDERICH'S VISIT TO LEIPZIG: DESK OFFICER CONFIRMED REFTEL REPORT THAT ECONOMICS MINISTER FRIDERICH'S WILL VISIT LIEPZIG FOR THE OPENING OF THE CONFIDENTIAL

CONFIDENTIAL

PAGE 02 BONN 03340 03 OF 03 271753Z

SPRING FAIR. OUR SOURCE STATED, IN CONTRAST TO REFTEL, THAT TALKS WITH GDR FOREIGN TRADE MINISTER SOELLE ARE NOW SCHEDULED. FRIDERICH'S APPARENTLY HAS NO PARTICULAR TOPICS TO RAISE WITH SOELLE BUT FELT THAT A DISCUSSION WITH HIM WAS THE "THING TO DO". ECONMIN OFFICIALS ARE NOW ATTEMPTING TO DREAM UP TOPICS FOR THE DISCUSSION. DESK OFFICER INDICATED THAT NO SPECIAL SIGNIFICANCE SHOULD BE PLACED UPON FRIDERICH'S DECISION TO VISIT THE FAIR FOR THE FIRST TIME THIS YEAR. HILLENBRAND

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